

## Risk management and internal control

EVRAZ maintains a comprehensive financial reporting procedures (FRP) manual detailing the Group's internal control and risk management systems and activity. The manual was last updated in December 2015. In line with the Financial Reporting Council (FRC) Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued in September 2014, the aim of the risk management process is to identify, evaluate and manage potential and actual threats to the Group achieving its objectives.

EVRAZ Enterprise Risk Management (ERM) process is designed to identify, quantify, respond to and monitor the consequences of these threats. A risk register that encompasses both internal and external critical threats has been agreed with the Risk Committee. In 2015, regarding principal risks and uncertainties, this process was consistent with the UK Corporate Governance Code, the Guidance on the Strategic Report issued in June 2014 and the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued in September 2014.

An important part of the risk management process is to determine the appropriate risk appetite at the EVRAZ management level, thereby identifying particular risks and uncertainties that require specific Board oversight. The Risk Committee last reviewed the Group's risk profile in September 2015 and finalised the assessment in February 2016.

The executive management is responsible for introducing the agreed internal controls and mitigating actions related to risk management throughout EVRAZ business and operations and at all levels of management and supervision. This serves to encourage a risk-conscious business culture.

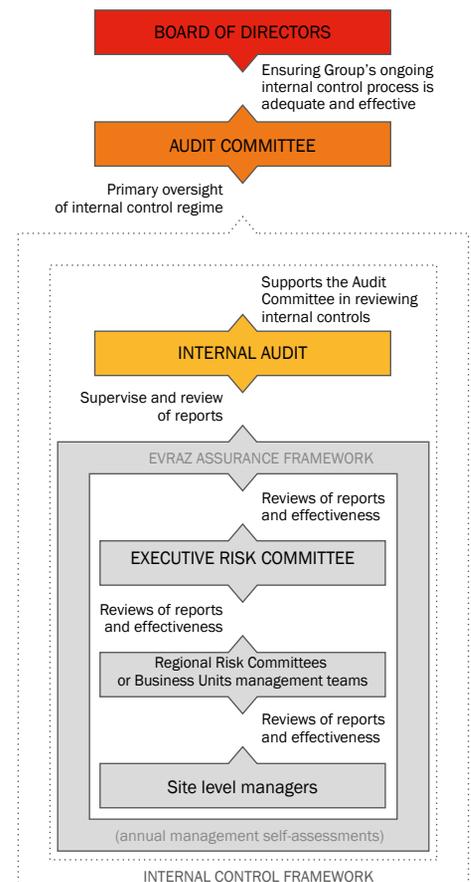
EVRAZ applies the following core principles to the identification, monitoring and management of risk throughout the organisation:

- Risks are identified, documented, assessed and monitored and their profile is communicated to the relevant levels of the management team regularly. The business management team is primarily responsible for ERM and accountable for all risks assumed in the operations.
- The board is responsible for assessing the optimum balance of risk (risk appetite) through the alignment of business strategy and risk tolerance on an enterprise-wide basis. In addition, the board oversees risks above the Group's defined risk appetite and internal control weaknesses measured in excess of the risk appetite.
- A reporting process involving regional risk Committees, business unit management teams and other relevant bodies at major enterprises has been established. Its aim is to identify, evaluate and establish management actions for risk mitigation at a regional level and at EVRAZ major steel and mining operations. The regional Committees are accountable to the Group's Risk Committee by way of membership of the latter (vice presidents of business units and functions).
- All acquired businesses are brought within the Group's system of internal control as soon as practicable.

In 2015, regional Risk Committees and business unit management teams continued to identify, evaluate and instigate regional risk management mitigating actions. Detailed risk assessments and risk evaluations were conducted at the plant and mine levels, resulting in an update of the Group's risk register.

→ For additional information about principal risks and uncertainties see Strategic report on pages 28-31.

### Internal control



## Components of the internal control system

Component	Basis for assurance	Action in 2015
<b>Assurance framework</b> – principal entity-level controls to prevent and detect error or material fraud, ensure effectiveness of operations and compliance with principal external and internal regulations	<ul style="list-style-type: none"> <li>○ Self-assessment by management at all major operations</li> <li>○ Review of the self-assessment by the internal audit function</li> </ul>	○ In 2015, the internal audit function certified and reviewed the internal control system
<b>Investment project management</b>	<ul style="list-style-type: none"> <li>○ Monitored by established management Committee and sub-Committees</li> <li>○ Reviewed by internal audit</li> </ul>	○ Procedures were strengthened in regard to quality and reporting control and other elements of the project oversight process during the year
<b>Operating policies and procedures</b>	<ul style="list-style-type: none"> <li>○ Implemented, updated and monitored by management</li> <li>○ Reviewed by internal audit function</li> </ul>	○ Operating policies and procedures were updated as per the internal initiatives by operational management and in response to recommendations from the internal audit function
<b>Operating budgets</b>	<ul style="list-style-type: none"> <li>○ Monitored by controlling unit</li> <li>○ Reviewed by the internal audit function</li> <li>○ Approved by the board of directors</li> </ul>	○ Operating budgets were prepared and approved by the board of directors
<b>Accounting policies and procedures as per the corporate accounting manual</b>	<ul style="list-style-type: none"> <li>○ Developed and updated by reporting department</li> <li>○ Reviewed by the internal audit function</li> </ul>	○ Accounting policies and procedures were updated as part of the standard annual review process

The board has delegated primary oversight of the Group's internal control process to the Audit Committee. The Committee has tabled for the consideration of the directors the major internal control findings in the areas where the Board's risk appetite has been exceeded.

To ensure that control is exercised effectively across operations, the Group has adopted annual management self-assessments of the internal control system using the EVRAZ Assurance Framework. The management rates and certifies the individual components of the framework. In 2015, all major production sites were certified as having effective internal control.

A department headed by Senior Vice President Leonid Kachur has specific responsibility for preventing and detecting business fraud and abuse, including fraudulent behaviour by employees, customers and suppliers that may cause a direct economic loss to the business. Solid internal controls help to minimise the risk, and EVRAZ Business Security department ensures that appropriate processes are in place to protect the Group's interests.

## Internal audit

Internal audit is an independent appraisal function established by the board to evaluate the adequacy and effectiveness of controls, systems and procedures at EVRAZ to reduce business risks to an acceptable level and in a cost-effective manner.

The board approved the latest version of the internal audit charter on 5 March 2015.

The internal audit function's role in the Group is to provide an independent, objective, innovative, responsive and effective value-added internal audit service. This is achieved through a systematic and disciplined approach based on assisting management in controlling risks, monitoring compliance, and improving the efficiency and effectiveness of internal control systems and governance processes. Twice a year, the function provides an opinion of the overall effectiveness of the Group's internal controls.

In 2015, EVRAZ's head of internal audit, as secretary of the Audit Committee, attended all the Committee's meetings and addressed any reported deficiencies in internal control as required by the Committee. The Committee continued to engage with executive management during the year to monitor the effectiveness of internal control and accordingly considered certain deficiencies that had been identified in internal control together with management's response to such deficiencies.

The internal audit planning process starts with the Group's strategy; includes the formal risk assessment process and the identification of management concerns based on the results of previous audits; and ends with an internal audit plan, which the Audit Committee then approves. Audit resources are predominantly allocated to areas of higher risk and, to the extent considered necessary, to financial and business controls and processes, with appropriate resource reservation for ad hoc and follow-up assignments.

In 2015, internal audit projects covered the following Group risks:

- Cost effectiveness
- Business interruption and equipment downtime management
- Health, safety and environment
- Capital projects and expenditure
- Treasury and working capital management
- Human resources
- Compliance

EVRAZ internal audit function is structured on a regional basis, reflecting the geographic diversity of the Group's operations. As a result, the Group's internal audit function is working to align common internal audit practices throughout the Group through quality assurance and improvement programmes.

Further information regarding EVRAZ internal control and risk management processes can be found at [www.evraz.com/governance/control](http://www.evraz.com/governance/control).